

Preparing Financial Projections - Basic Tips

Prepared by the Office of Small Credit Union Initiatives (OSCUI)

The steps below are provided as general guidance on preparing financial projections using Excel and the Financial Performance Reports (FPRs) available through the NCUA. The FPR data is helpful for creating very basic assumptions for your projections. **This information is provided for general guidance only and should not be interpreted as a required format or system for creating financial projections for NCUA.**

1. Plan CDCI Fund Uses: While not yet identified, there will be reporting requirements for the use of the CDCI funds. In preparation for this reporting it is critical that you consider how your credit union will use these funds and how you will report on their impact by categories of use, units of measure (e.g., number of loans), and total dollars. We have provided a planning tool as Addendum A to help with this process.
2. Download NCUA FPR: Access the NCUA tool for downloading FPRs at <http://webapps.ncua.gov/ncuafrp>:
 - a. Select "I want an FPR emailed to me for one credit union" then click "OK" to open the next screen.
 - b. Enter the email address where you want the Excel file sent.
 - c. Select "Annual" for Interval, enter the charter #, and select the most recent 12/31 report cycle.
 - d. When the Excel file arrives, save and open the file.
3. Create Financial Projection File: Open a new Excel document while still keeping the FPR file open. Note – Press Alt-Tab to toggle between two open documents.
 - a. Select the "1) Financial Summary" worksheet from the bottom tabs of the FPR document.
 - b. Copy the financial statement labels column and the last year of data into the new file. You can copy the whole worksheet and delete the extra information or you can simply copy only columns A and I from the FPR document. You may want to copy up to three years of historical data into the new file as reference.
4. Add Columns for Projected Years: Add column headings to the right of the historic data where you will fill in the projected figures, e.g., 12/31/2011, or FY 2011.
 - a. Note – you can also use a downloaded financial report from your accounting system as a starting point for the projections – the key is to pull in at least the last year of financial data as a basis from which to start estimating the projections.
 - b. Note that the Financial Summary in the FPR includes calculations for percentage change for each line item over the last two years. This data can be helpful in estimating future changes.
5. Develop Projection Assumptions: This is the key step in the process and also the most time-consuming. Review each line in the balance sheet and income statement to fill in what the total will be for the projected years. Use one or all of the following to do this for each line item:
 - a. FPR Data: You'll notice that the FPR includes several pages of detailed entries and calculations based on your 5300 reports. For example there is a section of "Productivity" calculations and % change ratios, both found on the Financial Summary tab.
 - b. Data Processing System Reports: Your DP system should provide you with more detailed figures if the 5300 aggregate data is not enough. For example, you may want to look at the weighted average rates of return on each type of unsecured loan product, whereas the FPR only has two categories of unsecured loans, credit cards and others.
 - c. Strategic and Business Plans: These planning tools are critical in developing projections as they should outline any changes the credit union intends to make such as new product or service offerings, staff changes, etc. These assumptions must be incorporated into the projections.
6. Add Calculated Monitors: It's important to monitor changes in key ratios based on the figures in your projections. To do this it's helpful to add a few rows of monitoring ratios at the bottom of your projections which identify the year end ratios. The most common ones include items such as Net Worth Ratio, Loans/Deposits, and Net Income Ratio, for example.

Addendums A-E: The following guidance and sample pages illustrate the steps outlined above.

Addendum A: CDCI Planning and Reporting Tool

For most credit unions, the value of the CDCI investment will be the increase in net worth resulting from the investment. In addition to this basic use, however, the CDCI will allow the credit union to use other funds that would not have been available for uses that more directly impact the members. In preparation for the reporting that the credit union will need to provide about the use of the CDCI funds, we have developed a list of impacts that could be measured as a result of the CDCI investments. We hope this tool will:

- 1) Help you to think through the possible uses and resulting impact of your CDCI investment.
- 2) Prepare you to identify and capture the data needed to accurately report how CDCI funds will lead to quantifiable results that would not have been possible without the CDCI infusion.
- 3) Estimate the total dollars available for the impacts as a direct result of the CDCI infusion. Note – these amounts may be more than the total CDCI investment because of the investment timeframe. For example, a \$20,000 CDCI investment that frees up \$20,000 of lending capital might be loaned out two times over the investment term. The resulting impact would be \$40,000 of lending.

CDCI Fund Uses & Impacts: This is a list of <u>sample</u> uses and impacts that could result from the CDCI investment. Add others as needed.	Measurement Process: Explain in detail both the data and process the CU will use to measure the impact of the investment.	\$Amount
Fund loan demand (specify which types in measurement process)		
Fund staff increases (hire new staff or increase hours of current staff)		
Fund facility addition, expansion, or improvement		
Fund financial literacy or other member development or education services		
Increase liquidity		
Increase marginal yield on investment portfolio		
Increase marginal yield on loan portfolio		
Others:		

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Addendum B: Financial Statement Line Item Guidance

The line items below are the key drivers of a credit union's income and expenses, and therefore its financial ratios. The most thought and research should be put into the projections for these figures. The notes below provide suggested questions to consider and resources to use to develop the most accurate projections for these important line items.

Balance Sheet: Assets: Total Loans: Look at the percent change over the last three years to identify the recent trend. Are you going to discontinue any loan products or offer new products? Will demand for a particular loan type increase or decrease? Are you marketing loan products more or less than prior years?

Balance Sheet: Liabilities and Capital: Uninsured Secondary Capital: Remember to reflect the total amount of secondary capital expected including any required match for the CDCI program. Also note that the cost of these funds will need to be reflected in the "*Cost of Funds" line item found under the Income/Expense section of the FPR. You may want to add separate lines to break these costs out including the "Interest on Borrowed Funds," rather than group all Cost of Funds in one line item.

Balance Sheet: Liabilities and Capital: Total Shares and Deposits: Estimate based on assumptions regarding member growth. What's driving the change in this number? Consider using the FPR Ratios page Productivity figure for "Avg. Shares Per Member" as a baseline assumption then consider other factors such as actual member growth in the last year, any changes to your Field of Membership, marketing and outreach plans that will help you to attract new members.

Income Statement: Income: Loan Income: Start by looking at the historical "* Yield on Average Loans" under the "Earnings" section found on the FPR Ratios worksheet. Have or will you change the pricing on loan products that will result in a different yield than last year? Will the portfolio composition by product change? For example, if you've discontinued real estate loans and will make more car loans instead, estimate the difference in yield based on the difference between those product interest rates.

Income Statement: Expenses: Salaries and Benefits: Will the credit union hire new staff because of the CDCI investment? Are benefit costs like health insurance increasing or decreasing?

Income Statement: Expenses: Provision for Loan and Lease Losses (PLLL): Look at historical PLLL expense and the credit union's ALLL model. Consider any new information that may result in a different trend than has been shown historically, for example, local or national economic downturns or recoveries.

Balance Your Balance Sheet: You must make sure that your balance sheet balances such that Total Assets = Total Liabilities, Shares and Equity. It may be difficult to estimate every change in the balance sheet, therefore you may need to make a final calculated adjustment to cash, investments, or any other item where you assume the out of balance difference will fall.

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Addendum C: Sample Monitoring Ratios and Formulas

These are helpful for ensuring that the projections continue to meet NCUA regulations and guidelines.

Net Worth Ratio: Total Equity / Total Assets

Loans/Member Deposits: Total Loans/Member Shares and Deposits

Loans/Member + Non-Member Deposits: Total Loans/Member + Non-Member Shares and Deposits

Loans/All Deposits + Secondary Capital: Total Loans/All Member + Non-Member Deposits + Secondary Capital

Net Income Ratio: Net Income / Total Assets

Addendum D: Projection Assumptions for Secondary Capital Plan

This is a sample format for documenting the detailed explanations for the assumptions used in the projections. You should include an entry for each major line item or section in the plan. Spend the most time explaining any numbers which are different from the historical pattern. The explanation should both explain the calculation of the number and justify why the numbers are changing. **Note – these explanations do not replace the narrative description you will provide in your secondary capital plan explaining how you will use the funds.**

Line Items	Explanation of Assumptions
Balance Sheet	
CASH AND EQUIVALENTS	
TOTAL INVESTMENTS	
TOTAL LOANS	
(Allowance for Loan & Lease Losses)	
TOTAL ASSETS	
Uninsured Secondary Capital	
TOTAL LIABILITIES	
TOTAL SHARES & DEPOSITS	
Income and Expenses	
Loan Income	
Investment Income	
Other Income	
Salaries & Benefits	
Total Other Operating Expenses	
Non-operating Income & (Expense)	
NCUSIF Stabilization Income (Expense)	
Provision for Loan/Lease Losses	
Cost of Funds	
Net Income (Loss)	
Other Assumptions/Explanations	
Member Growth	
Delinquencies	
Net Charge-Offs	
Other:	

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Addendum E: Secondary Capital Projections 2010-2014

	Historic Data	Projected Years				
	Dec-2009	Dec-2010	Dec-2011	Dec-2012	Dec-2013	Dec-2014
ASSETS:						
Cash & Equivalents	278,061					
<u>TOTAL INVESTMENTS</u>	104,891					
Loans Held for Sale	0					
Real Estate Loans	92,773					
Unsecured Loans	379,741					
Other Loans	0					
<u>TOTAL LOANS</u>	472,514					
(Allowance for Loan & Lease Losses)	(19,654)					
Land And Building	0					
Other Fixed Assets	51,202					
NCUSIF Deposit	7,797					
All Other Assets	4,945					
<u>TOTAL ASSETS</u>	899,756					
LIABILITIES & CAPITAL:						
Dividends Payable	4,174					
Notes & Interest Payable	0					
Accounts Payable & Other Liabilities	2,552					
Uninsured Secondary Capital	0					
<u>TOTAL LIABILITIES</u>	6,726					
Share Drafts	4,531					
Regular shares	355,559					
All Other Shares & Deposits	484,989					
<u>TOTAL SHARES & DEPOSITS</u>	845,079					
Regular Reserve	34,900					
Other Reserves	0					
Undivided Earnings	13,051					
TOTAL EQUITY	47,951					
TOTAL LIABILITIES, SHARES, & EQUITY	899,756					
INCOME & EXPENSE						
Loan Income*	39,825					
Investment Income*	10,523					
Other Income*	8,370					
Salaries & Benefits*	0					
Total Other Operating Expenses*	50,812					
Non-operating Income & (Expense)*	17,326					
NCUSIF Stabilization Income*	0					
Provision for Loan/Lease Losses*	23,057					
Cost of Funds*	12,342					
NET INCOME (LOSS) BEFORE NCUSIF STABILIZATION EXPENSE*	-10,167					
NCUSIF Stabilization Expense*	1,161					
Net Income (Loss)*	-11,328					

RESULT MONITORS						
Net Worth Ratio: Total Equity/ Total Assets	5.33%	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Loans/Member Deposits	131.22%	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Loans/Member + Non-Member Deposits	55.91%	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Loans/All Deposits + Secondary Capital	55.91%	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Net Income Ratio: Net Income/Total Assets	-1.26%	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

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